

Recent developments in the euro money market

Money Market Contact Group
Frankfurt, 10 December 2012

ECB developments and announcements

17 October

- *The ECB published a legal guideline to allow for the admission of certain assets denominated in pounds sterling, yen or US dollars as eligible collateral .*

28 November

- *The ECB published **amendments of the General Documentation**, which are largely related to changes in the Eurosystem collateral and risk control framework.*

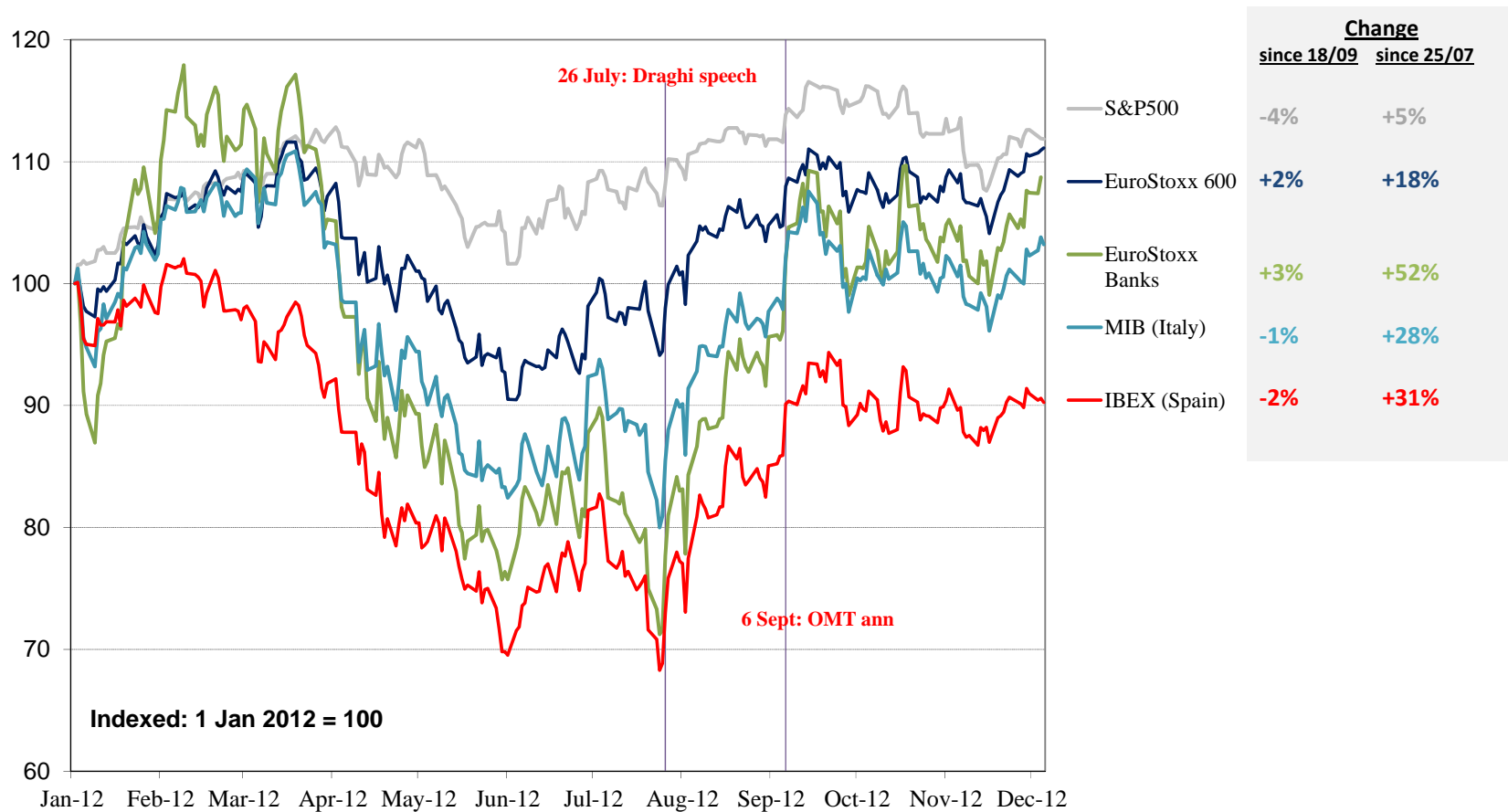
6 December

- *The ECB extended **the fixed rate full allotment** at least until July 2013 and announced **3-month LTROs** to be allotted on 30 January, 27 February, 27 March, 24 April, 29 May and 26 June 2013.*

Financial market background I

- Markets maintained a positive momentum following earlier ECB measures despite several sources of uncertainty

Equity market performance

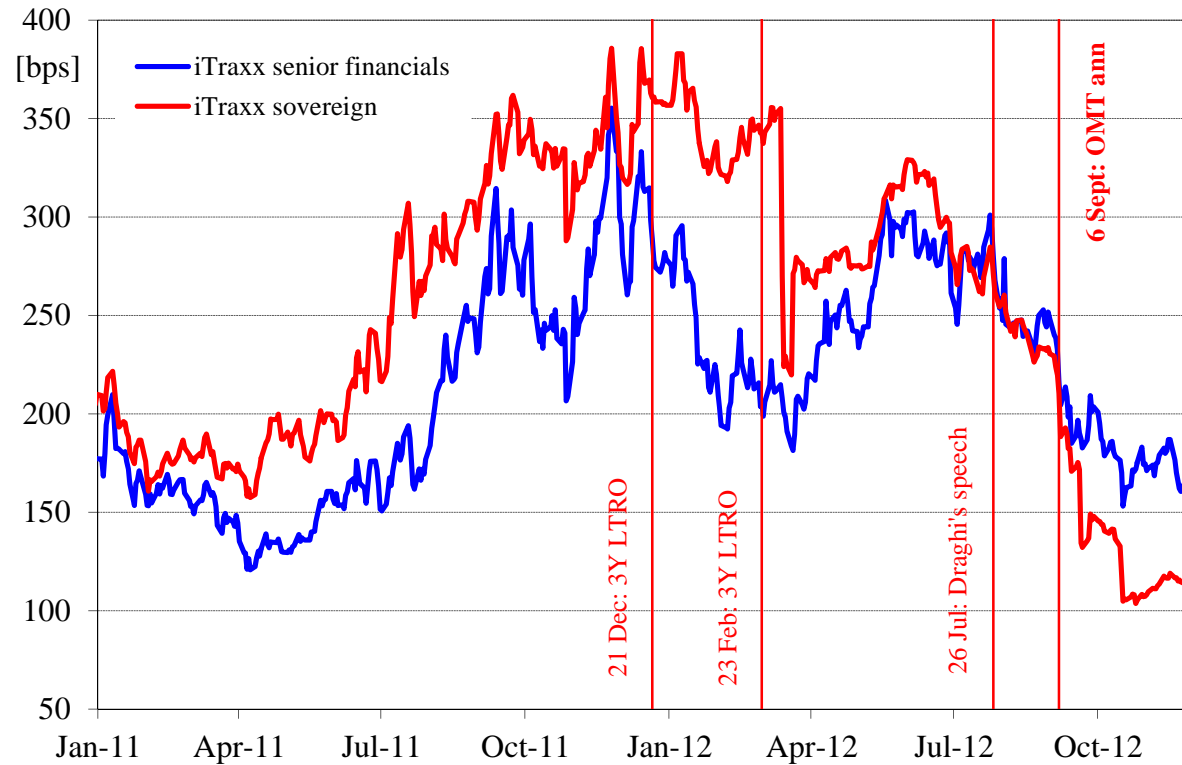


Source: Bloomberg

Financial market background II

- Perceived credit risk of senior financials continued to decline in line with the sovereign risk premia

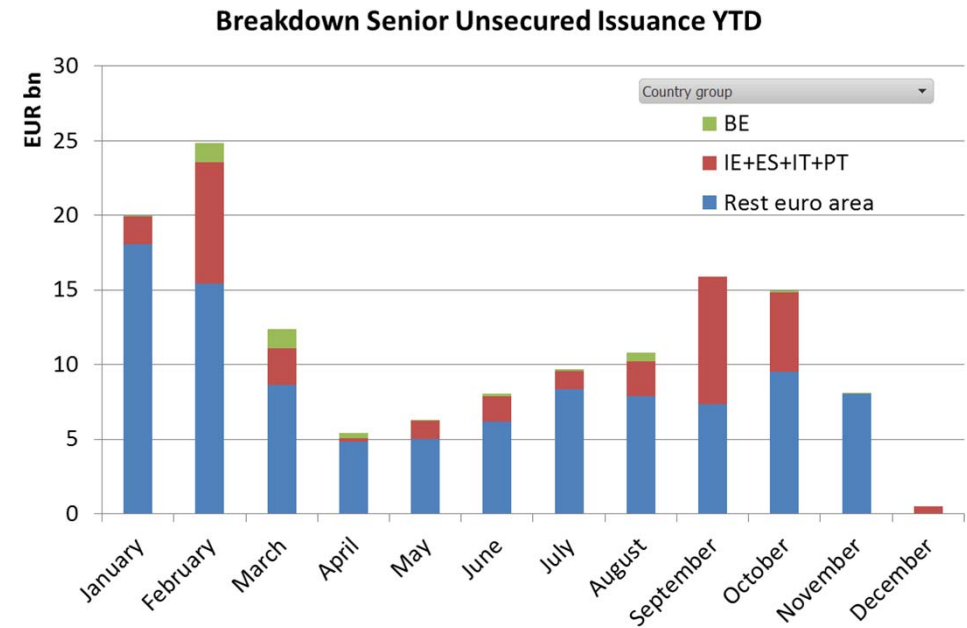
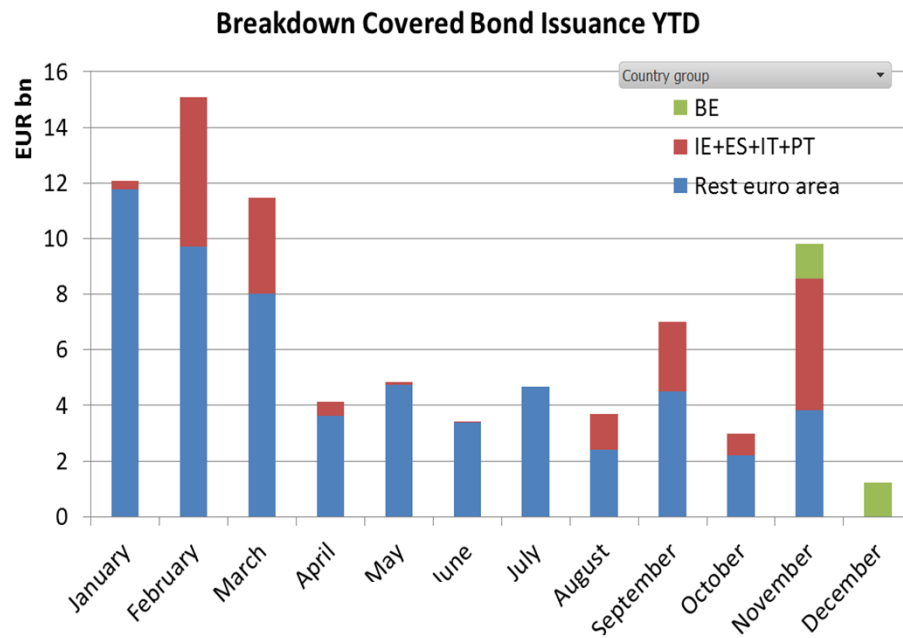
Itraxx indices for euro area sovereigns and senior financials



Source: Bloomberg

Bank funding conditions I

- Some signs of improved capital market access also by “non-core countries



Source: Dealogic

Bank funding conditions II

- Latest euro area bank issuance met decent investors' interest and performed well in the secondary market

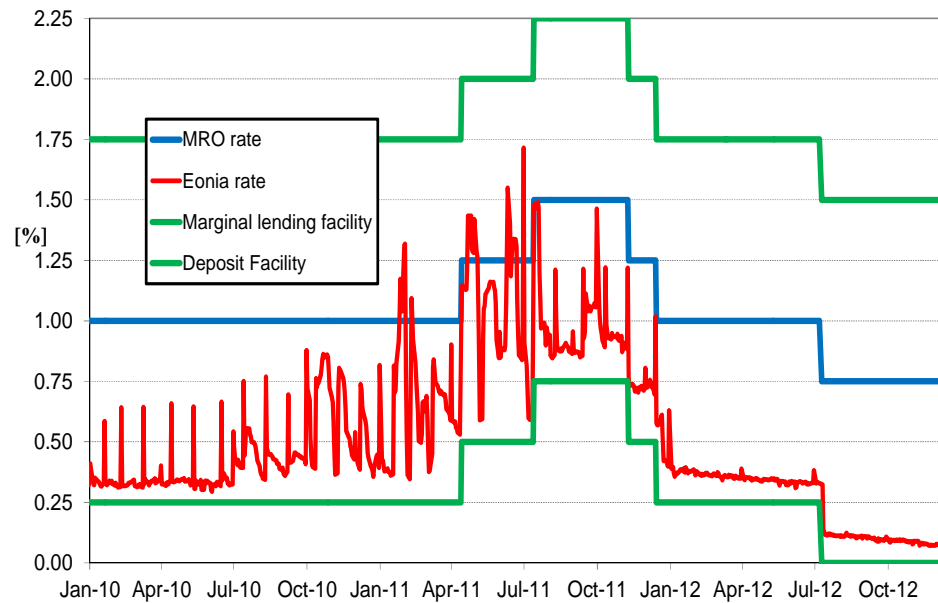
Issue	Country	Bond Type	Date of issuance	Tenor	Issue Size (EUR mn)	Spread at issuance	Δ in spread since issued (30/11)	Swap spread as per 30/11
AIB 3.125% Dec 2015	IE	Covered	28-Nov	3-year	500	270	-31	239
CXGD 5.625% Dec 2015	PT	Senior Unsec.	27-Nov	3-year	500	520	-41	479
BBVA 3.5% Dec 2017	ES	Covered	26-Nov	5-year	2000	260	8	268
ISPIM 3.625% Dec 2022	IT	Covered	22-Nov	10-year	1250	200	-25	175
BPCE 1.75% Nov 2019	FR	Covered	21-Nov	7-year	1000	48	0	48
Belfius Bank 1.25% Nov 2017	BE	Covered	19-Nov	5-year	1250	45	-15	30
BKIR 3.125% Nov 2015	IE	Covered	13-Nov	3-year	1000	270	-36	234
CFF 2.375% Nov 2022	FR	Covered	09-Nov	10-year	1000	74	-8	66
BESPL 5.875% Nov 2015	PT	Senior Unsec.	31-Oct	3-year	750	534	-30	504
BankInter 3.875% Oct 2015	ES	Covered	18-Oct	3-year	500	335	-33	302

Source: Dealogic, Bloomberg

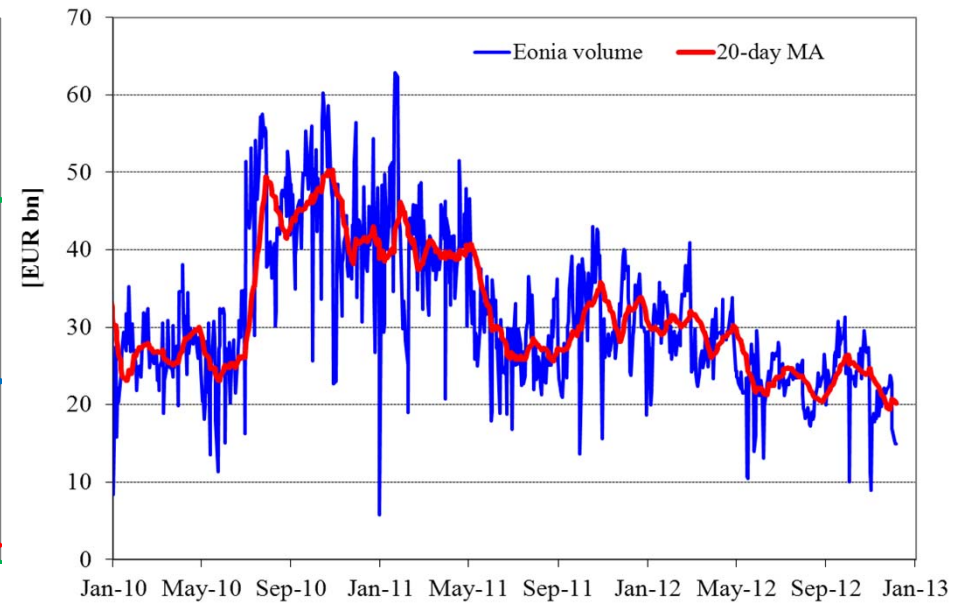
Unsecured money market I

- A continuous decline in the EONIA spread to the deposit facility rate
- EONIA lending volumes trending lower

EONIA rate



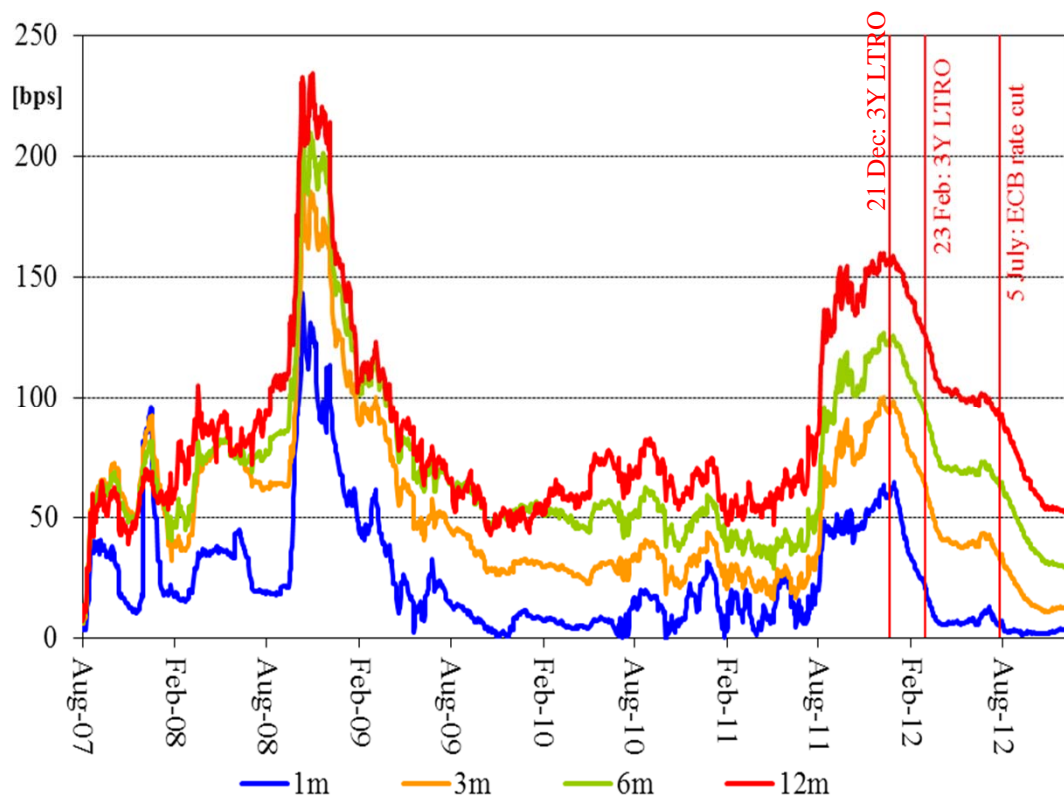
EONIA volumes



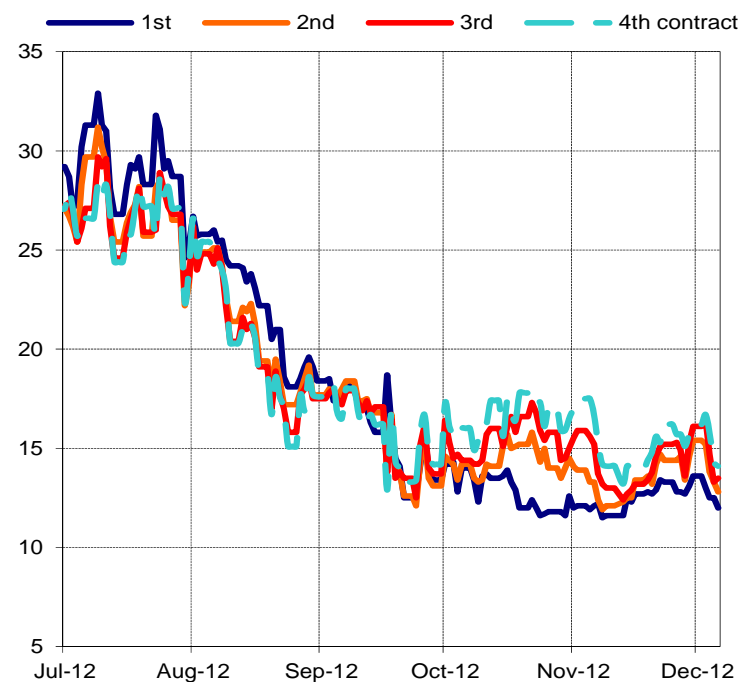
Unsecured money market II

- Euribor – OIS spreads are close to multi-year lows but the pace of declines bottomed out, as also indicated by the forward spreads

Current Euribor-OIS spreads



3-month forward spreads*



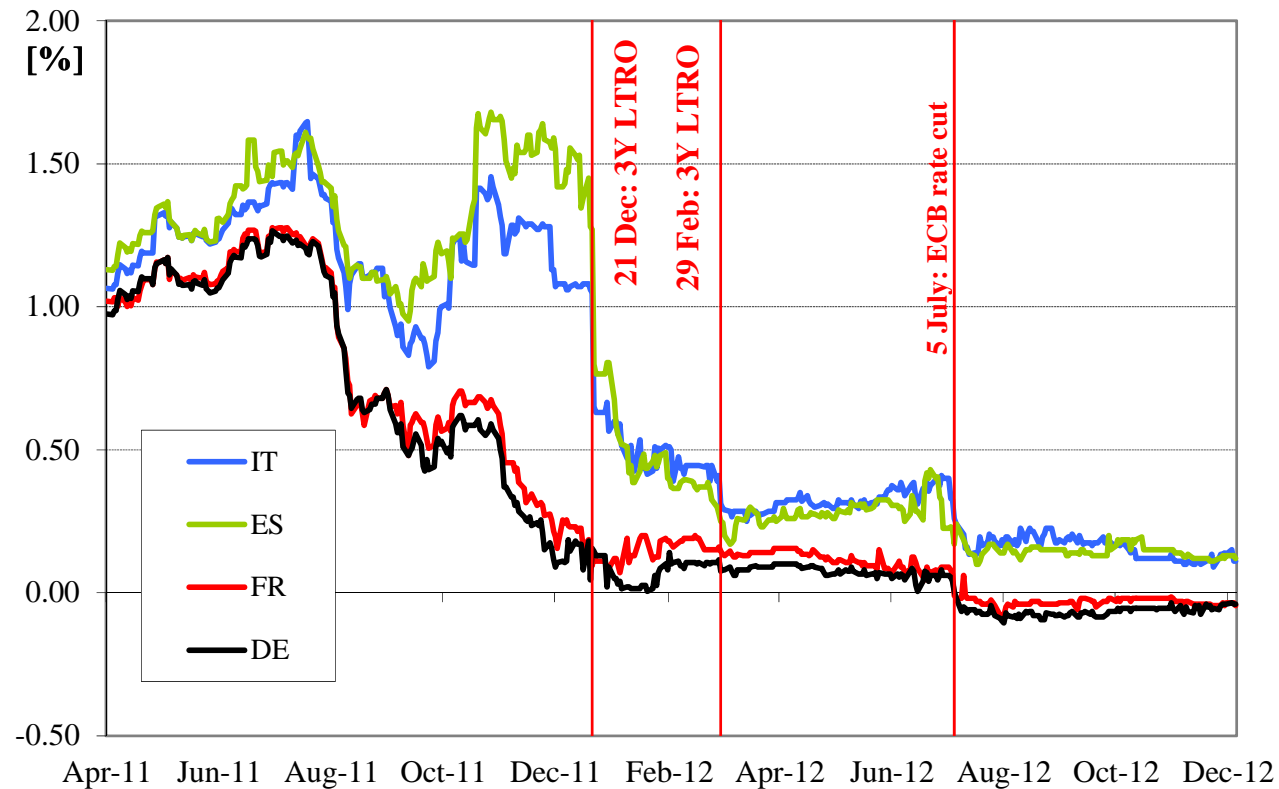
* Currently corresponds to Dec 12, Mar 13, Jun 13, Sep 13

Source: Bloomberg

Secured money market I

- Spanish and Italian repo rates and spreads to Germany remained broadly stable

3-month repo rates for different types of collateral



Source: Bloomberg

Secured money market II

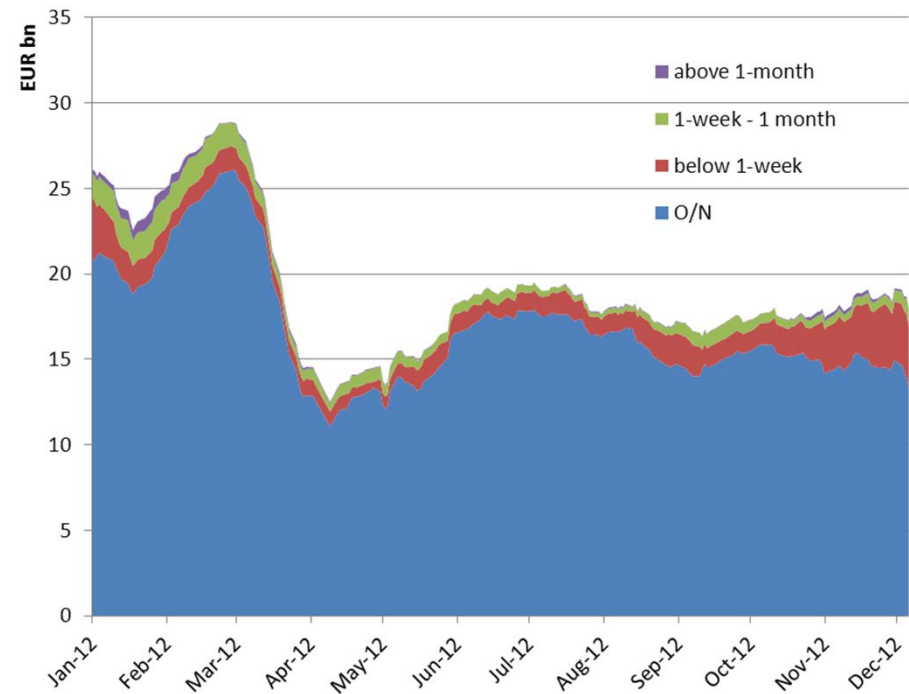
- Repo market volumes are steady but the year-end effect visible in some markets

Brokertec: European Total Repo Volumes (EUR bn)



Source: ICAP research

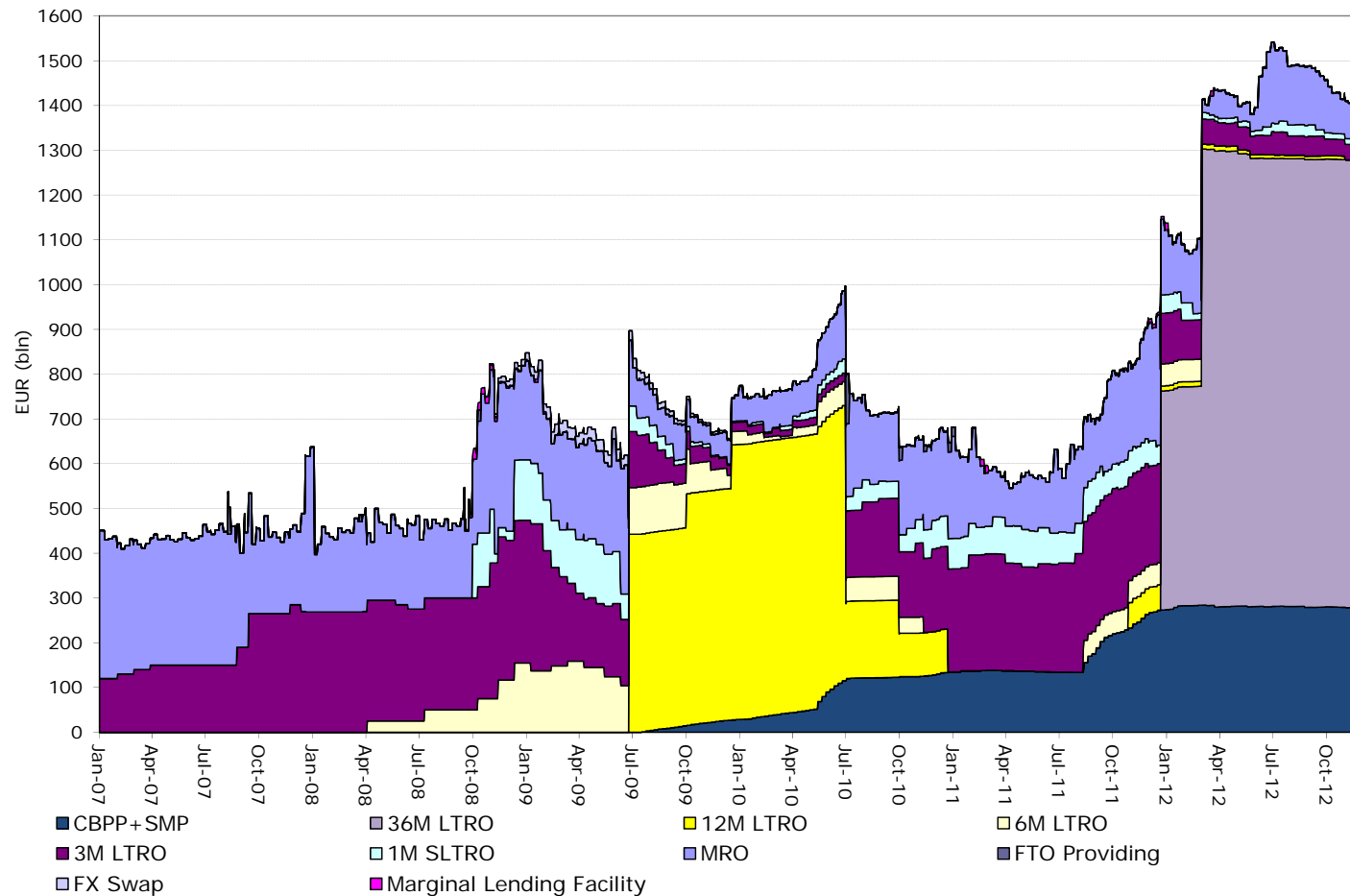
Spanish repo volumes (settled via Iberclear)
20-day moving averages



Source: Banco d'Espana

Use of the ECB's standing facilities and operations

- Decline in the recourse to the ECB operations (MROs)

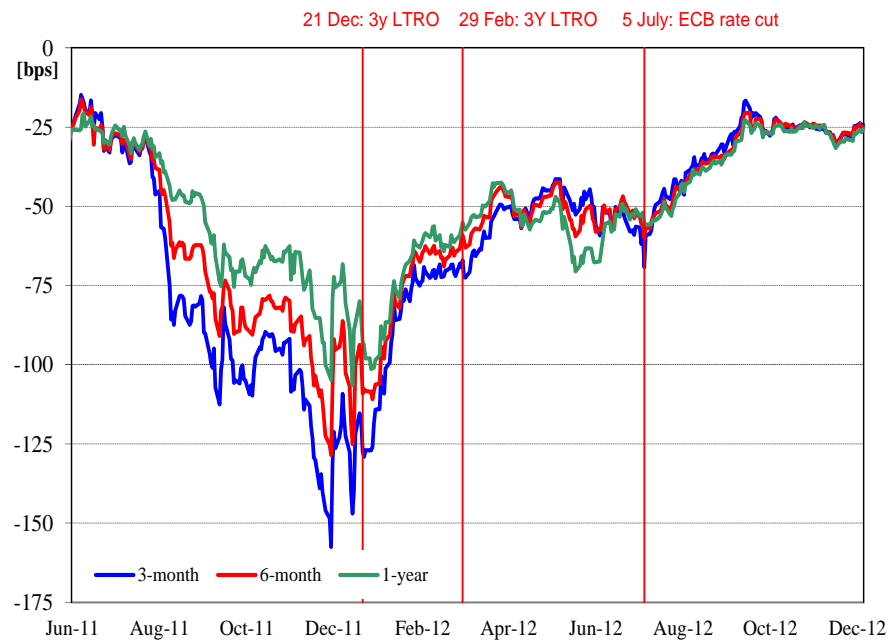


Source: ECB

USD funding situation and ECB USD operations

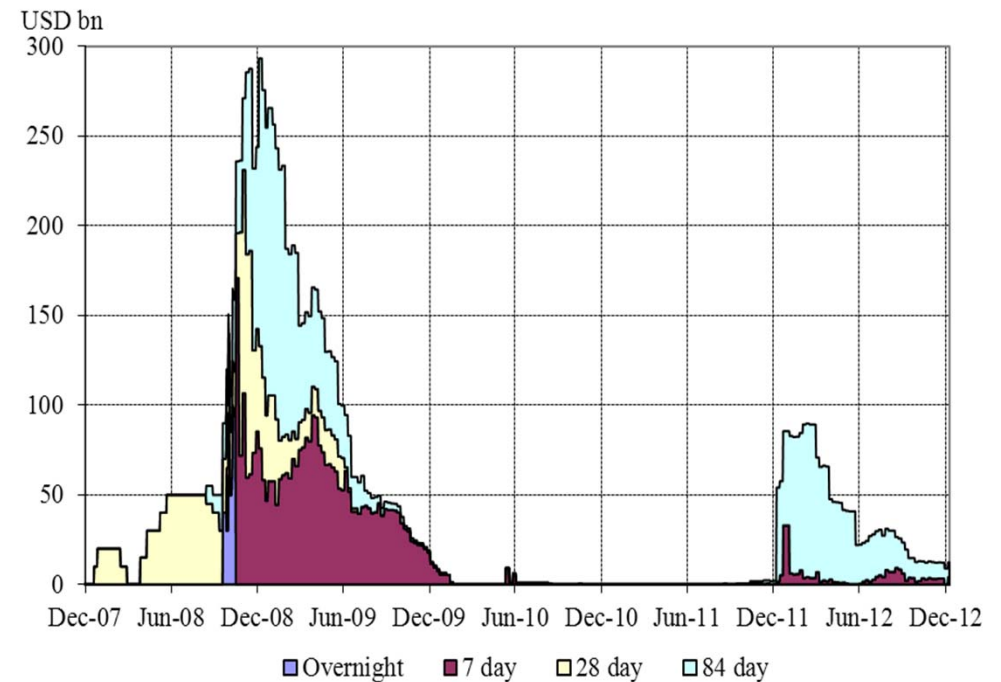
- Stable funding conditions in the FX swap market
- Low recourse to the ECB USD facilities

EUR/USD FX basis swap



Source: Bloomberg

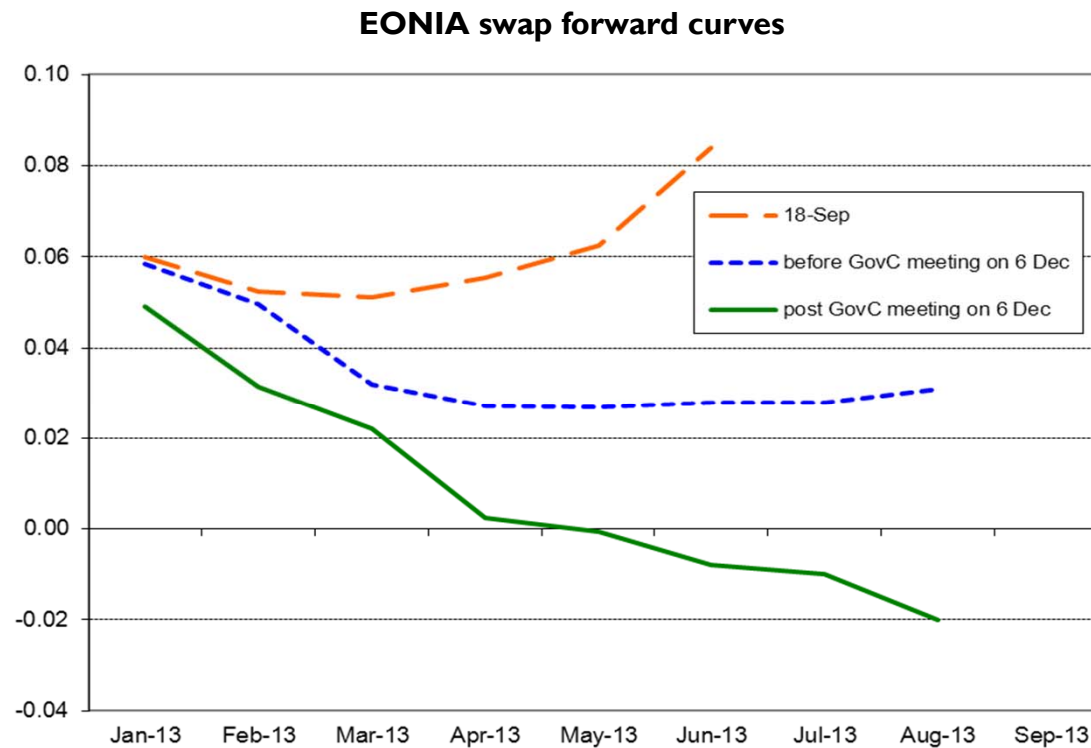
ECB USD operations



Source: ECB

Market expectations of the ECB policy rates

- **EONIA swap forward curve shifted downwards pricing in (i) a further narrowing of the EONIA deposit spread and (ii) an increased probability of a cut in the deposit facility rate in 2013**
- **Reuters' poll (28 Nov): 34 out of 71 respondents forecast a rate cut by end-Q1 2013, 36 by end-Q2 2013**



Source: Bloomberg

Market expectations of the VLTRO repayment

- **Repayment possible as of 30 January (deadline for submission of interest on 23 January) with a weekly frequency**
- **A wide range of market estimates from EUR 60 bn to EUR 200 bn (in Q1 2013)**
- **A gradual repayment pattern seen most likely**
- **Limited impact on liquidity conditions and money market rates with the excess liquidity at around EUR 670 bn**

Source: Bloomberg

Potential issues for discussion

1. *MMCG assessment of the functioning of the euro money market*
 - *End-of year effect on rates and volumes*
 - *MMCG expectations with regard to the VLTRO repayment*
 - *Sustainability of current situation and potential risk factors going forward*
2. *MMCG expectations with regard to the ECB monetary policy and potential non-standard measures*